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Ministry of Education

Windsor-Essex Catholic District School Board Investigation Report

August 28, 2012

Acknowledgements

Deloitte would like to thank the Chair of the Board of Trustees, the Director of Education and senior staff of WECDSB who participated in the investigation. The school board made themselves available for extensive interviews and provided, to the best of their ability, all of the supporting data and documentation requested by the Deloitte Investigation Team.

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Executive Summary

Background

Deloitte and Touche LLP ("Deloitte") was retained by the Minister of Education to undertake an investigation of the finances of the Windsor-Essex Catholic District School Board ("WECDSB") in accordance with powers contained in the Education Act. Over the last two years, WECDSB has posted two operating deficits and is projecting another deficit for the current financial year, despite the fact that for most of those years, the school board had budgeted for surpluses. The school board also has a significant capital deficit.

Key elements within the scope of this investigation included the following:

- An assessment of whether the 2012/13 operating surplus target is achievable;
- An assessment of whether the school board's plan to address the capital deficit is achievable;
- The identification of any financial implications of providing benefits to retirees beyond age 65;
- An evaluation of the extent to which the school board has implemented all recommendations of the 2011 Operational Capacity Report, including assessing the impact on school board finances for not implementing these recommendations; and
- Recommendations for future action

In undertaking this investigation we worked closely with key members of WECDSB's staff ("staff"). We also met with the Chair of the Board of Trustees during our investigation. Finally, we relied upon data that was made available to us by staff and from the Ministry of Education ("the Ministry").

During the course of our investigation, the government announced that it will introduce legislation that would, if passed, require that all local agreements between school boards, teachers and support staff use a signed Memorandum of Understanding ("MOU") between the government and Ontario English Catholic Teachers' Association ("OECTA") as a basis for their final collective agreements.

At the time of the investigation, the exact contents and therefore the potential impact of the impending legislation on WECDSB's financial projections for 2012/13 was uncertain. The ambiguity resides in the fact that many of the school board's targeted budget reductions are contingent on collective agreement renegotiations that will likely not be addressed by the legislation. Given the uncertainty of the forms and content of the legislation, we are therefore unable to predict, with any degree of accuracy, its overall financial impact on WECDSB's 2012/13 budget. This lack of certainty extends to whether or not the proposed legislation will allow WECDSB to continue to bargain with its unions to seek the proposed reductions.

Assessment of the Operating Financial Position for 2011/12

The school board's budget for 2011/12 projected a $2.4M surplus. However, in Q2 the school board began to project a $0.03M deficit and by Q3 the deficit projection had grown to $0.3M representing close to a $3M variance from the initial budget forecast. While there is some evidence that staff has begun to implement more effective financial management practices, largely emanating from the Ministry's

Operational Review process, WECDSB remains troubled by an inability to budget and accurately forecast its financial position.

Through the investigation, an analysis was performed in order to assess the most likely financial results for the soon-to-be completed 2011/12 financial year. Although WECDSB projected a $0.3M deficit at Q3, our assessment suggests a range of year-end scenarios from an increased deficit of $0.7M to a small $0.3M surplus.

Given the magnitude of the school board's overall spend, the lack of accurate in-year financial reporting and the unpredictability of some expenditures late in the year, it is difficult to predict with certainty where the school board will end the year.

It is clear though that our scenarios do not suggest the school board will be able to achieve its initial budget projection of a $2.4M surplus. The initial target of $2.4M was critical because it would enable the school board to eliminate its current accumulated deficit. None of the projections suggest this goal of eliminating the accumulated deficit can be achieved this year and it will therefore remain a problem in 2012/13.

Assessment of 2012/13 Operating Budget

WECDSB is to be commended for taking a more diligent approach in the development of the 2012/13 budget process since it has begun to implement some of the recommendations from the Ministry's Operational Review process. The tabled budget for 2012/13 projects a budgeted surplus of $3.3M, which would eliminate the accumulated deficit.

Through the investigation, we examined a number of the key assumptions in the 2012/13 budget and determined that there are significant risks in achieving all of the budget reduction targets. In particular, there are a number of budget reduction initiatives amounting to $2.2M, including reductions in IT personnel and changing the staffing model for custodial staff, which are dependent on successfully renegotiating current obligations from collective agreements. This amount is over-and-above the MOU negotiated by the Ministry with OECTA. In our view, it will be very difficult for WECDSB to achieve these savings without incurring other cost pressures. Additionally, we have identified historical cost pressures that have not been adequately addressed within the current budget in the areas of classroom teachers, school operations, and supply teachers.

2012/12 Budget Risk Area		$M (Millions)
Budget Reductions Contingent on Successful Contract Renegotiations		$0 - $2.2M
Unaddressed Historical Pressures	Classroom Teachers	$1.1M
	Supply Teachers	$0.5M
	School Operations	$1M
Total Items at Risk		**$2.6M - $4.8M**
Deloitte Revised 2012/13 Budget Surplus/(Deficit)		**$0.7M – ($1.5M)**

Overall, our conclusion is that it will be highly unlikely for WECDSB to achieve its planned $3.3M surplus for 2012/13. Rather, we believe that there is a significant risk the school board will post a much smaller surplus of $0.7M or even a deficit of up to $1.5M.

Furthermore, during interviews school board staff indicated strikes would very likely occur as a result of the school board's collective bargaining objectives. While it is not within the mandate of the investigation to evaluate collective bargaining strategies, it was noted that the school board had not formally accounted for any financial contingency as it would relate to bargaining. Similarly, the school board had not conducted a risk or impact analysis that would support a plan to manage what would likely be significant disruption of services to students and staff.

Assessment of Plan to Address Capital Deficit

In previous years, WECDSB undertook capital projects that were not fully supported by Ministry funding. The most significant capital projects were St. Anne's Secondary School, St. Joseph's Secondary School, and the Board Administration Building. As of August 31, 2012 WECDSB's remaining balance of unsupported capital spending will be $15.3M which will be amortized over the next 21 years and $14.1M in unsupported capital debt not permanently financed. The reduction of the capital deficit contains two parts:

- The unsupported capital debt relating to the administration building will be supported over the next three years (2012/13, 2013/14, 2014/15) by the use of proceeds from a previous disposition. However, from 2015/16 onwards, WECDSB will need to find savings from its administration budget to continue funding this capital deficit. The school board currently does not have a plan of how it will reduce its spending in this area beginning in 2015/16.

- WECDSB will allocate a portion of its future school renewal grant each year for the unsupported capital debt relating to pupil places. In the 2012/13 budget, $0.9M of this grant has been dedicated for this purpose and WECDSB plans to continue allocating a portion of these grants each year until the unsupported capital debt for pupil places is eliminated.

WECDSB has recently completed four accommodation reviews, the outcomes of which will result in the closure of two schools. Given the current depressed nature of the real estate market in the Windsor area, WECDSB has not projected any future dispositions of property in its capital deficit reduction plan; although clearly such dispositions, should they occur, would improve the plan.

In conclusion, although WECDSB has a plan in place to address its capital deficit, its reliance on allocating portions of the school renewal grant and its current inability to dispose of surplus properties means that it will take a long time to eliminate the capital deficit and will require the use of scarce operating resources that will need to be found from other budget items.

Assessment of Provision of Benefits Beyond Age of 65

Historically, WECDSB has provided coverage for health, dental, and life insurance for non-teaching employees after retirement. Some of these employees are considered eligible for coverage after retirement until they reach 65 years of age and others are receiving coverage for life. The overall position of WECDSB's post-retirement benefit plans as at August 31, 2011 was an unfunded accrued benefit liability of $67.7M. Our high-level estimate of the portion of this liability attributable to providing post-retirement benefits beyond the age of 65 is between $24M to $32M.

This liability will continue to grow if the school board is unable to change this practice for active employee receiving benefits after retirement. However, given the ongoing collective bargaining process at the time of the investigation, it is also reasonable to assume that the elimination of benefits for life for current active employees can only be achieved with some level of concessions potentially causing additional cost pressures on other budget items.

Assessment of Impact of Implementation of 2011 Operational Capacity Report

As a follow-on to the Ministry's standard Operational Review process, a more detailed review largely focusing on the budget process of WECDSB was performed by PriceWaterhouseCoopers ("PwC") from July to December 2011. As part of our investigation, we examined WECDSB's progress in implementing the recommendations that resulted from the PwC review.

Overall, Deloitte found sufficient evidence to support a conclusion that the majority of the budget development recommendations were fully adopted by the school board. However, the formal implementation of several key budget-related recommendations was still a work in progress at the time of the investigation. Most notable was the implementation of a formal risk management plan as part of the budget development process as well as taking a strategic approach to budget development. The lack of

formal budget risk mitigation and risk management was seen by Deloitte as a critical gap in supporting the board's ambitious cost reduction and budget balancing goals for the 2012/13 fiscal year.

Staff and the Board of Trustees' Chair reported that the new process for budget development was essential in creating the 2012/13 budget, which was understood and supported by all departments. However, Deloitte found department-level accountability for meeting and owning budget targets to be lacking. Furthermore, departments lacked the financial management capabilities to explain significant spending variances from the forecast. In some cases there were also cross-departmental disconnects on items such as staffing levels and budget targets/initiatives.

Accordingly, the investigation team did not find sufficient evidence that would indicate the full implementation of those recommendations related to staffing allocation, specifically in-year complement management and reporting. In our view, the lack of progress in this area may continue to pose some risk of variances in staffing costs.

Overall, WECDSB staff is to be commended for their progress with regard to the implementation of the PwC recommendations, and admittedly the implementation timeline provided by PwC extended over 3 years. However, we are concerned that the remaining gaps (discussed above) collectively pose a significant risk for the achievement of the school board's aggressive financial targets.

Conclusions and Recommendations

It is evident through this investigation that WECDSB's inability to meet its financial management obligations under the Education Act has been due to a number of factors which need to be considered in combination:

- The financial impact of previous decisions such as a relatively generous collective agreement terms and unfunded capital construction;
- An inability to develop accurate budgets as well as an inability to develop timely and accurate reports throughout the year;
- Inadequate financial management practices within the organization and insufficient management capacity;
- The lack of ownership and accountability of department heads for implementing budget initiatives and managing with their allocations;
- The absence of budget controls to facilitate departments spending within their budget allocations; and
- The lack of communication and cooperation of key departments on important items such as staffing numbers and budget targets.

The investigation revealed that both staff and the Board of Trustees are aware of the current financial challenges and that notwithstanding a sense that these problems have been inherited from past administrations, there is a sense of ownership and a call to action. That said; it is the view of Deloitte that there are significant risks surrounding WECDSB's ability to rectify its financial position in the short-term. Of particular note is a budget that is heavily reliant on a labour strategy that has inherent financial and non-financial risks, including the potential for disruption of service to students and staff.

Given that WECSDB has been in contravention of the Education Act, and in our view will likely continue to be in contravention, our conclusion is that the Minister of Education should consider placing WECDSB under Supervision. Whilst this is a decision that should not be taken lightly, in our view, a focused deployment of additional resources from the Ministry will provide the necessary structures, capacity and decision-making environment to expedite the return of fiscal sustainability at WECDSB.

Background and Scope

Context

Under the Education Act, school boards in Ontario are prohibited from carrying in-year deficits that are either more than 1% of annual revenues or greater than school board accumulated surpluses. Over the last three years, the Windsor-Essex Catholic District School Board's ("WECDSB") has posted two consecutive operating deficits for its annual budget of about $250M. For the most recent financial year, 2010/11, the WECDSB's $3.5M operating deficit represented about 1.4% of annual revenues. Moreover, the operating deficit exceeded the school board's $1M accumulated surplus. Therefore, the school board was in contravention of the Act. Furthermore, as will be detailed later in the report, the school board also carries a capital deficit – making it the only school board in Ontario with dual deficits for operating and capital.

Historical Operating Financial Results and Projections*

	2008/09	2009/10	2010/11	2011/12	2012/13
Revised Estimates	$1.9M	$2.3M	($1.0M)	$2.4M	$3.3M
Q3 Report	N/A	N/A	($1.3M)	($0.3M)	
Financial Statements (EFIS Schedule 10)*	$4.1M	($1.2M)	($3.5M)	N/A	
Accumulated Surplus/Deficit	$1.4M	$1.0M	($2.4M)	($2.8M)	$0.4M

* Numbers may not add up due to rounding; N/A = Not available; In accord with the WECDSB's practices for historical analysis, all Financial Statements numbers were taken from Ministry of Education Financial Officer (FO) EFIS Schedule 10 Statements representing the final adjusted statements for the school board, which may not reconcile with publicly available Financial Statements for these years

In addition, WECDSB's actual financial results have consistently missed its budget targets. For 2008/09 and 2009/10, the school board projected in its operating budget that it would post $1.9M and $2.3M surpluses respectively, whereas actual financial performance resulted in $4.1M surplus and $1.2M deficit. Similarly, for 2010/11 the school board projected in its operating budget that it would post a small in-year deficit of $1.0M, whereas actual financial performance resulted in a $3.5M deficit.

In the context of carrying dual operating and capital deficits and contravening the Education Act, the ability to accurately project financial performance is critical. However, WECDSB projected a $2.4M surplus for its 2011/12 operating budget and as of most recent financial report (Q3) it is currently tracking for a $0.3M deficit – representing a swing of about $3M. It should be noted that the initial projection of $2.4M would have eliminated the board's accumulated operating deficit.

For 2012/13, WECDSB is currently projecting a $3.3M operating surplus which would similarly eliminate the $2.8M accumulated operating deficit expected to materialize at end of the current year. As such, Deloitte and Touche LLP ("Deloitte") was retained by the Ministry of Education ("the Ministry") to perform an independent assessment of the school board's financial position for 2011/12 and 2012/13 budget.

Other Historical Developments

Beyond WECDSB's operating results there are three other historical developments that are important to outline:

1. **Capital Deficit:** In 2006, a government review investigated concerns over the construction and budget overruns for two new high schools. The subsequent report identified a $22M capital budget shortfall for the projects because the cost of their construction exceeded Ministry funding.

As a result, the school board is currently carrying a $15M capital deficit unsupported by government funding.

2. **Post-Retirement Benefits:** WECDSB currently provides post-retirement health and dental benefits beyond the age of 65 for some employee groups. As of August 31, 2011 the school board's balance sheet carried a $95M unfunded obligation related to employee future benefits. Of all the school boards in Ontario, WECDSB has by far the largest benefit liability. However, it has been unclear how much of this overall unfunded liability can be directly linked to benefits for life.

3. **External Reports:** Since 2006, the Ministry and the school board have worked closely together on multiple occasions, producing various reports to support the school board. However, the extent to which the school board has leveraged these supports is unclear. We highlight some of the key reports below:

    - In 2008, a financial advisor provided advice to WECDSB regarding its deficit elimination plan and capital debt. The outcome was a report submitted to the school board and the Ministry recommending the board eliminate its accumulated deficit over the subsequent two years and identifying potential funding sources for the construction costs a of new WECDSB board administrative building.

    - In May 2009, the Ministry performed an Operational Review with the resulting report identifying 33 recommendations in Governance and School Board Administration, Human Resource Management and Staffing/Allocation, Financial Management, and School Operations and Facilities Management.

    - At the request of the school board, the Ministry conducted a review of the school board's financial position, spending, and staffing in June 2011. The review identified an additional budget shortfall of approximately $2M for 2011/12. It also underscored how the under-utilization of some schools was causing cost pressures to the school board. Additionally, the Ministry review identified the need for improvement on financial management and reporting.

      Specifically, the June 2011 report from the Ministry outlined recommendations to decrease the existing capital deficit by using existing Ministry funding to cover the unsupported amortization expense. Moreover, with respect to the budgeting process, the Ministry recommended the use of variance reporting to develop preliminary budget forecasts. The Ministry also identified measures to improve financial management capacity within the school board and made recommendations on opportunities for expense reductions including revenue and spending comparisons as well as comparisons with other boards.

    - In July 2011, PricewaterhouseCoopers (PwC) LLP was requested by the school board to be retained to provide additional assistance in building management capacity through an in-depth review to identify priority areas of improvement in the areas of budgeting, staff allocation, and recruitment and to assess the organizational alignment of central administration (non-teaching) functions. The outcome of the PwC review was 10 recommendations and a road-map for roll-out from Q4 in 2011 to Q1 in 2013 and fully implemented over a 3-year timeframe.

Over the past 14 months, since the Ministry review and PwC report, the school board has demonstrated improvements in their budgeting process and both senior leadership and the Board of Trustees have noted improvements in the financial reporting process. In addition, it was common sentiment among school board officials (administration and Chair) interviewed that both the culture of the Board of Trustees and the WECDSB had improved significantly over the past six years. WECDSB should be commended for its journey. However, the extent to which many other critical recommendations have been implemented remains unclear.

Project Scope

The investigation at WECDSB consisted of a Deloitte team as the lead investigator, occasionally supported by Ministry staff, where appropriate. Deloitte was appointed pursuant to subsection 257.30 (2) of the Education Act to investigate the financial affairs of WECDSB.

In carrying out the investigation, the team was responsible for submitting a report to the Minister of Education by no later than August 24, 2012, which would include:

- An assessment of whether the 2012/13 operating surplus target is achievable
- An assessment of whether the school board's plan to address the capital deficit is achievable
- The identification of any financial implications of providing benefits to retirees beyond age 65
- An evaluation of the extent to which the school board has implemented all recommendations of the 2011 Operational Capacity Report including assessing the impact on school board finances for not implementing these recommendations
- Recommendations for future action

In order to achieve the above items which are in scope for this review, Deloitte had the powers and duties of an investigator under Part VIII and Part IX, Division D of the Education Act.

Memorandum of Understanding and Ministry Legislation

Immediately prior to the investigation, the Ministry of Education signed a Memorandum of Understanding (MOU) with the Ontario English Catholic Teachers' Association (OECTA). The MOU established a roadmap for school boards to use in local negotiations in order to meet the province's fiscal parameters.

During the course of our investigation, the government announced that it will introduce legislation that would, if passed, require that all local agreements between school boards, teachers and support staff use a Memorandum of Understanding ("MOU") between the government and Ontario English Catholic Teachers' Association ("OECTA") as a basis for their final collective agreements.

At the time of the investigation, the potential impact of the MOU (or the impending legislation) on WECDSB's financial projections for 2012/13 was uncertain. The ambiguity lies in the fact that some of the school board's targeted budget reductions that are contingent on collective agreement renegotiations will not be addressed by the MOU/legislation, while other expenditure areas may experience decreases. Given the uncertainty of the forms and content of the legislation, we are unable to predict, with any degree of accuracy, its overall financial impact on WECDSB at this time.

Methodology

The investigation occurred over a four-week period starting on July 30, 2012 and ending with report submission on August 28, 2012. The duration of the project was 20 days, consisting of the following four phases:

- *Phase 1*: - Pre-visit data collection and preliminary analysis (4 days)
- *Phase 2:* - Team on-site visit preparation, WECDSB data request, and data analysis (6 days)
- *Phase 3:* - On-site interviews and analysis (4 days)
- *Phase 4:* - Report writing (6 days)

It should be noted that throughout this report, in accord with WECDSB practices for historical analysis, all Financial Statement numbers were taken from the Ministry of Education Financial Officer (FO) EFIS Schedule 10 Statements representing the final adjusted statements for the school board, which may not reconcile with publically available Financial Statements for these years. With the exception of 2011/12 Revised Estimates and 2012/13 Estimates, all EFIS financial data used has been taken from Ministry of Education Financial Officer (FO) EFIS Statements.

Review of 2011/12 Financial Position

Introduction

School boards develop their annual operating budgets - called Estimates - by June 30 for the period covering September 1st to August 31st. Estimates are based on projected student enrolment and associated teacher allocations. Since the school year starts in September, Revised Estimates are developed by December (at the end of Q1) based on actual student enrolment and teacher allocations.

Over the course of the financial year, three interim reports are developed assessing a school board's financial results against its Revised Estimates. These reports show whether the school board is on track with its budget projections, and if not, where and by how much the difference could be expected to be. At the end of the year, Financial Statements are developed to show the actual performance of the school board.

WECDSB's current operating financial position is important because it supports an assessment of how accurate the school board budget forecasts are. It also enables an analysis of how effective the in-year financial reporting process is in bringing to light significant variances from budget projections. Finally, it helps understand the accumulated surplus or deficit that will be carried over into the next year.

Our analysis of WECDSB's current operating financial position involved the development of three scenarios, suggesting the school board could post financial results ranging from a $0.3M surplus to a 0.7M deficit. Importantly, one of the three scenarios suggests that the school board's Q3 projection of a $0.3M deficit is on track.

It is clear though that our scenarios do not suggest the school board will able to achieve its initial budget projection of a $2.4M surplus. The initial target of $2.4M was critical because it would enable the school board to eliminate its current accumulated deficit. None of the projections suggest this goal of eliminating the accumulated deficit can be achieved this year which will therefore remain a problem in 2012/13.

Analysis

In making an assessment of the school board's current financial position and for estimating year end 2011/12, Deloitte used Interim Financial Reports from Q2 and Q3 in 2011/12 and the last interim report prior to release of financial statements in 2010/11. Additionally, trial balance and variance data was provided to Deloitte from the school board's financial system up to July 31, 2012. However, senior finance staff expressed a lack of confidence in the accuracy of current financial data for July and August and so Deloitte used actual spending from August of 2011 in order to estimate the school board's current financial position and their 2012 year end.

Methodology

To support our analysis of the WECDSB's current operating financial position, the Deloitte team requested the following information from the school board in advance of our site visit:

- Any analysis related to why the school board has not achieved its budget projections in prior years (starting from 2007/08)
- Five years (from 2007/08 to 2011/12) of key budget assumptions and revised budget assumptions

- Interim financial reports from this year including:
  - The most recent interim financial report submitted / presented to the Board of Trustees
  - The Q3 interim financial report which the school board had indicated in correspondence that it planned to present to the Board of Trustees in mid-August
- Trial balance (financial position) as of June 30, 2012 and the updated forecast to August 31, 2012
- Trial balance as of July 31, 2012 and the updated forecast for August 31, 2012

Our information request had three objectives:

1. We expected to use any analysis of prior years' missed targets by the school board to assess the extent to which any historical challenges had been addressed.
2. We also intended to use the information to analyze the soundness of previous years' assumptions.
3. We expected an evaluation of interim reports and trial balances would uncover spending patterns for the year to validate the current forecasted financial position.

The school board was unable to provide all the information requested. However, staff provided the Q2 interim financial report and trial balance as of June 30. Consequently, once on-site during the week of August 13th the Deloitte team prioritized our request for the Q3 interim financial report and the trial balance as of July 31 and supplemented the remaining requests for the interim financial reports for the past three years.

Observations

During our on-site visit to WECDSB and through our interactions with staff to analyze the school board's current financial position, the Deloitte team made a number of key observations:

- **Lack of timely interim financial reports:** Through our requests and interviews with Board administration, it became clear that the school board was unable to easily provide timely interim financial reports. As a financial management capability, it is imperative that the finance function is able to provide management with timely and accurate financial information in support of sound, fact-based decision making. Given the consequential nature of our investigation, the Deloitte team was particularly concerned about the inability of staff to easily produce their most recent financial information to support our analysis of WECDSB's financial position. However, once pressed interim reports were produced.
- **Insufficient explanation/understanding of key variances from forecasts:** Our discussions with Board staff revealed an inability to fully explain or understand large variances from forecasts. The school operations and maintenance line was consistently tracking for $1M in overspending in both the Q2 and Q3 forecast. This million-dollar pressure was historical and had persistently occurred over the last four years. However, at the time of the investigation the school board could not initially explain this variance to the forecast. Once pressed, explanations for this variance were provided over the course of the investigation. Still, the Deloitte team was concerned that the school board had been tracking that it was off its initial forecast of a $2.4M surplus since the end of February but did not have a strong understanding of a key historical factor that explained almost half of the variance. In addition, budget holders were not being held accountable for an inability to manage within their budget allocations. More importantly, some budget holders were unaware of their budget allocations.
- **Lack of accurate in-year financial reporting:** Through our assessment of the school board's financial reports it became clear that there was a lack of accurate in-year reporting that would

provide the Deloitte team with confidence in the numbers provided. Between Q2 and Q3 the teacher line item forecast a new pressure of $1.2M largely due to the use of a wrong assumption for teacher salaries in the 2011/12 budget and through the interim reporting process up to Q3. Staff indicated that part of the challenge was an inability for HR and Payroll to communicate and provide a consistent set of staffing information. Similarly, the Q3 forecast provided included a $1M error where items that should have been posted in August had been posted to July to work around planned staff vacations.

These observations are critical to understanding the limitations and constraints of our analysis of the school board's current financial position. Firstly, we are not confident that the school board's finances illustrate spending patterns that can be expected to hold from one period to another. This is because in some cases it is unclear whether activities driving spending in one period can be soundly assumed to occur in another. This makes it hard to monitor variances and control expenditures during the year or to make comparisons year-over-year and avoid surprises. Secondly, there is no comfort that data provided for past periods is characterized by accurate accounting practices to record activities in the correct period.

2010/11 Interim Financial Report

In 2010/11, the last interim report developed before the release of the Financial Statements covered the period ending April 30. While the school board had projected a $0.6M surplus in its Revised Estimates, this interim report forecast a $1.3M deficit. Furthermore, the risk assessment in the interim report indicated that if spending patterns of the previous year persisted, the deficit could grow.

At the end of the year, the school board posted a $3.5M deficit. Therefore, it would appear that while the budget projections of the school board were off track, the interim forecast was directionally accurate in predicting where the school board's financial position would be. This suggests that the school board's most pressing challenge related to interim financial reporting lies in developing realistic budget projections because the biggest surprise occurs between budget and the interim reports. Importantly, there is room for improvement in the accuracy of the school board's interim financial reporting. However, last year's interim report was directionally on course.

Scenarios for August 2011/12 Expenditures

In the budget of 2011/12, WECDSB projected a $2.4M surplus. However, by Q2 the school board began to project a $0.03M deficit and by Q3 the deficit projection had grown to $0.3M representing close to a $3M variance from the initial budget forecast.

The risk assessment in the Q3 forecast suggests that rather than increase, the projected deficit should decrease if spending patterns of the previous year persist. In contrast, last year the interim report identified a risk that the projected deficit of $1.3M could grow – and it did, to $3.5M. This year's interim report suggests the projected $0.3M deficit could turn into a small surplus.

The school board provided its July 2012 actuals for our assessment of its Q3 forecast. Therefore, there was only one month (August) left in the financial year to determine. Our assessment of WECDSB's financial position at the end of Q3 involved the development of three scenarios for August 2011/12:

	Scenario 1	Scenario 2	Scenario 3
Assumptions	July 2011/12 actual expenses will be similar to August 2011/12 expenses	August 2010/11 actual expenses will be similar to August 2011/12 expenses	Other than the typical year-end reconciliations that occurred in August 2010/11, August 2011/12 expenses will be similar to July 2011/12 expenses
Impact on Current Forecast – (Over)/Under Forecast	($0.5M)	$0.03M	$0.6M
(Deficit)/Surplus	**($0.7M)**	**($0.2M)**	**$0.3M**

- **Scenario 1**: Given the similarity of the summer months of July and August in an academic year, we assumed it would be reasonable to forecast that August 2011/12 expenses would be very similar to July 2011/12 actual expenses.

  − **Result**: This would suggest that the school board's forecast is off by about $0.5M pressure and result in a $0.7M deficit – i.e., higher than the $0.3M deficit the school board is currently projecting. (Numbers may not add up due to rounding)

- **Scenario 2:** After comparing July and August 2010/11 expenses, we identified a number of adjustments that appear to be year-end reconciliations. Many expenses (such as expenditures for supply teachers) which occurred in July 2010/11 did not occur in August 2010/11. Our analysis revealed that similar expenditures (such as supply teachers) had occurred in July 2011/12, which could not be reasonably expected to occur in August.

  Therefore, in this scenario we assumed August 2011/12 expenditures would be similar to the previous year (August 2010/11).

  − **Result**: This would suggest that the school board's forecast is largely on track with a small adjustment of about $0.03M resulting in a deficit of approximately $0.2M – i.e., essentially in line with the $0.3M deficit the school board is currently projecting. (Numbers may not add up due to rounding)

- **Scenario 3:** Our analysis of overall spending patterns for 2011/12 revealed that they were quite different from those in 2010/11 – explaining why 2010/11 resulted in a $3.5M deficit while 2011/12 is tracking to essentially breakeven.

  Therefore, in this scenario we assume that other than the typical adjustments that occur in August year-end reconciliations, actual spending in July 2011/12 should provide a more accurate forecast for August 2011/12. As such, we apply adjustments similar to August 2010/11 for August 2011/12 where appropriate but assume July 2011/12 spending patterns for the rest of the forecast. In essence, this scenario similar to Scenario but adjusted for typical August year-end reconciliations.

  For instance, since August 2010/11 showed only adjustments (rather than expenses) for supply teachers, similar adjustments were assumed for August 2011/12 (as opposed to the $0.5M expenditure incurred for supply teachers in July 2011/12).

  − **Result**: This would suggest that the school board's forecast of a $0.3M deficit would be increased by about $0.6M and result in a $0.3M surplus.

Conclusions

Through our on-site visit and discussions with Board staff regarding WECDSB's financial position, the Deloitte team made a number of observations about the school board's financial management capacity

that are critical to understanding the limitations and constraints of our analysis. Ultimately, we observed that the school board found it challenging to provide accurate, timely in-year financial reports that clearly demonstrate an understanding of the key drivers and developments shaping the board's financial position. As a consequence, the Deloitte team is not assured that the board's in-year financial reports display reliable spending patterns that can be confidently extrapolated into the future.

While WECDSB projected a $2.4M operating surplus in its budget, the school board's Q2 and Q3 reports revised its forecast to a $0.03M deficit and $0.3M deficit respectively. Our assessment of last year's interim report suggests that the school board's challenge lies more in developing accurate financial projections in its budget than its interim financial reports. This suggests that the school board's current forecast of a $0.3M deficit is a potential scenario.

To further probe the school board's current forecast of a $0.3M deficit for 2011/12, we developed three scenarios based on different assumptions to project expenditures for remaining part of the year. This involved analyses of July 2011/12 actual expenses as well as July and August 2010/11 actual expenditures.

Given the magnitude of the school board's overall spend, the lack of clear patterns for some spending categories and unpredictability of some expenditures (such as emergency roof repairs), it is difficult to predict with certainty where the school board would actually end the year. However, our analysis suggests the school board could post financial results ranging from a $0.3M surplus to a $0.7M deficit. Importantly, one of our scenarios suggests that the school board's current projection of a $0.3M deficit is on track.

Assessment of 2012/13 Budget

Introduction

WECDSB has put forth an aggressive operating budget for 2012/13. The school board is projecting a $3.3M operating surplus, which would eliminate its accumulated deficit that is expected to be $2.8M. It should be noted that WECDSB similarly developed a budget surplus for 2011/12 that was expected to eliminate its accumulated deficit but the school board is now tracking for an in-year deficit.

WECDSB's 2012/13 budget was developed through a five-stage strategic process, in line with recent PwC recommendations to the school board. To coordinate this process, WECDSB struck a Budget Workgroup consisting of senior management representation from each department: Business, Information Technology, Human Resources, Student Achievement K-12, and Facilities.

2011/12 Revised Estimates were used as the starting point for the budget and, through the Budget Workgroup, opportunities were identified for budget increases (called additions) due to historic cost pressures or budget decreases (called reductions) expected to occur as a result of new initiatives.

The Budget Workgroup evaluated 17 expense areas for reduction opportunities and identified at a total of $10.7M in reduction initiatives. Budget additions were also identified at the department level, and brought forward from the Budget Workgroup for inclusion into the budget. A total of $3.7M in budget additions was approved for inclusion in the 2012/13 budget. Taking into account the budget reductions and additions identified, WECDSB anticipates an in-year operating surplus of $3.3M for 2012/13.

In the context of an accumulated deficit and previous years' budgets that were developed to eliminate the accumulated deficit through surpluses that did not materialize, our assessment of the 2012/13 will be important to understand whether the targets are achievable.

Our analysis identifies risks of between $2.6M and $4.8M comprised of unaddressed historical pressures and savings targets with key dependencies that will be challenging to realize. Ultimately, this suggests that the WECDSB's $3.3M surplus target is optimistic and is at risk of becoming a smaller surplus of $0.7M or a potential deficit of up to $1.5M. Importantly, neither scenario eliminates the school board's accumulated deficit of at least $2.8M.

2012/12 Budget Risk Area		$M (Millions)
Budget Reductions Contingent on Successful Contract Renegotiations		$0 - $2.2M
Unaddressed Historical Pressures	Classroom Teachers	$1.1M
	Supply Teachers	$0.5M
	School Operations	$1M
Total Items at Risk		**$2.6M - $4.8M**
Deloitte Revised 2012/13 Budget Surplus/(Deficit)		**$0.7M – ($1.5M)**

Analysis

Our analysis of the 2012/13 budget surplus involved two components. First, we analyzed the budget reductions to determine any dependencies and risks that may limit their realization. Second, Deloitte engaged in a comprehensive assessment of the entire budgets for previous years and assessed the extent to which the 2012/13 budget additions addressed historical pressures.

The government recently announced that it will introduce legislation that would, if passed, require that all local agreements between school boards, teachers and support staff use the Memorandum of Understanding between the government and OECTA as a basis for their final agreements.

It is unclear at this time what the impact of the impending legislation (and MOU) that would, if passed, have on the school board financial projections for 2012/13. Given the uncertainty of the forms and content of the legislation, we are unable to predict its overall financial impact on WECDSB's 2012/13 budget at this time.

Budget Reduction Initiatives

In order to determine the likelihood of achieving the planned $10.7M in budgetary reductions identified by WECDSB, Deloitte individually assessed each of the targeted areas for critical dependencies placing the items at risk. Through this analysis, it was evident that a portion of the total budget reduction target was dependent on successfully renegotiating current contract obligations with unions.

In the table below, we identify each budget reduction category, the reduction target, and any dependencies for achieving that target. As each of the targets was calculated all budget savings initiatives in that expense line, it is possible that only a portion of the total target is at risk due to contract negotiations.

Expense Line / Budget Reduction	Reduction Target ($M)	Critical Dependencies?	Description of Dependency	Target at Risk ($M)
Classroom Teachers: Reduction of Elementary, Secondary, Learning Support Services, Specialty, Music, French as a Second Language, and English as a Second Language Teachers	$4.4M	No		
Computers: Adjustment consistent with Ministry of Education Guidelines	$0.2M	No		
Professionals / Para-Professionals & Technical: Reduction of IT staff due to reorganization of IT department roles, and Social Workers due to change in delivery model for mental health strategy	$0.9M	Yes	Minutes of settlement from an arbitrator decision may be automatically rolled over into September 1 unless the collective agreement is made to come to an end	$0.6M
Library/Guidance: Reduction of personnel in line with transition to new library model	$1.2M	No		
Staff Development: Reduction of budgets for Professional Development	$0.04M	Yes	Elimination of technical training, savings of $30,000, requires removal from CAW Office Clerical and Technician collective agreement	$0.03M
Department Heads: Reduction of department heads through consolidation of responsibilities	$0.2M	Yes	This requires negotiation with OECTA to eliminate department head positions in departments with no other members	$0.2M
School Office: Reduction of non-union personnel in school office	$0.2M	No		

Expense Line / Budget Reduction	Reduction Target ($M)	Critical Dependencies?	Description of Dependency	Target at Risk ($M)
Coordinators and Consultants: Reduction of personnel in multiple areas across the Board	$0.7M	Yes	One position targeted for elimination due to attrition of Special Education Coordinator will require negotiation with union for redistribution of work, resulting in risk	$0.1M
Board Administration: Reduction of personnel and other discretionary costs at School Board	$0.3M	Yes	Several of the initiatives will require negotiation with union representing custodians	$0.1M
School Operations and Maintenance: Reduction of full-time and part-time maintenance, utility, and custodial staff	$1.2M	Yes	The school board wishes to implement a custodial / maintenance staffing model based on square footage, not number of rooms, consistent with other school boards across the province. This change will reduce the number of staff, but require successful negotiation with the union	$1.2M
Special Education: Reduction of personnel related to the Special Education program	$1.5M	No		
Total Reduction Targets	**$10.7M***		**Total Budget Targets at Risk**	**$2.2M**

*Note: Numbers may not add up due to rounding

Through assessment of the individual budget reduction initiatives, it is clear that the budget surplus assumes savings of $2.2M will be achieved based on successfully negotiating collective bargaining changes with several unions.

Deloitte did not find evidence of any contingency plans built into the 2012/13 budget to account for the risk that budget reductions dependent on contract negotiations may not be achieved. Additionally, Deloitte is concerned that WECDSB may require concessions to succeed in contract negotiations and that these investments have not been taken into consideration in developing the budget.

School board staff indicated strikes would very likely occur as a result of the school board's collective bargaining objectives. Deloitte notes that the school board has not accounted for the non-financial but equally important impact that a strike would have on staff morale and organizational culture.

Budget Additions Built into Draft Budget

In the table below, we outline the budget additions or increases that the school board identified and built into its 2012/13 budget to address historical pressures:

Expense Line / Rationale	Increases Built into 2012/13 Budget
Classroom Teachers: Adjustment for salary stipends for practice teaching	$0.1M
Supply Teachers: Pressure if occasion teacher costs are in line with 2011/12	$2.2M
Education Assistants/Early Childhood Educators: Pressure related to increase in Full Day Kindergarten funding	$1.2M
School Operations and Maintenance: Contractual agreements for travel allowances	$0.03M
Transportation: Pressures due to proportional change in ridership	$0.1M
Special Education: Restoration of school accounts to historical levels	$0.2M
Total budget additions built into draft budget	**$3.7M**

* Numbers may not add up due to rounding

Through our comparative analysis of every line item in the WECDSB's Estimates, Revised Estimates and Financial Statements EFIS statements over the past five years, Deloitte identified three areas with consistent historical pressures that may not have been adequately addressed through the 2012/13 budget additions:

- Classroom Teachers,
- Supply Teachers, and
- School Operations and Maintenance

In the table below, we show that there is a risk of $2.6M of unaddressed pressures in the 2012/13 budget. The results are based on a Deloitte revised 2012/13 forecast that is detailed in the sub-sections below.

Expense Line	2012/13 Budget	Deloitte Revised 2012/13	Potential Pressure
Classroom Teachers	$133.8M	$134.9M	$1.1M
Supply Teachers	$5.5M	$6.0M	$0.5M
School Operations / Maintenance	$21.8M	$22.6M	$1.0M
		Total Pressure	$2.6M

Deloitte estimates that these pressures alone could cause the 2012/13 budget to decrease from a $3.3M surplus to a surplus of $0.7M, independent of the previously mentioned $2.2M risks due to contractual negotiations.

Classroom Teachers

In the table below, we show that WECDSB has historically overspent its teacher allocation by about $1.3M on average over the last three years. Given the impact of declining enrolment on annual budget adjustments for the classroom teacher expenditures, the historical pressure for classroom teachers does not shed any light on the potential pressure for 2012/13. Rather the table illustrates that the school board has historically found it challenging to live within its self-identified allocations developed for classroom teacher expenses.

	2008/09	2009/10	2010/11
Revised Estimates	$124.2M	$129.8M	$134.4M
Financial Statements (EFIS Schedule 10)	$125.6M	$130.3M	$136.5M
In-year Pressure	($1.4M)	($0.5M)	($2.1M)
Average Pressure		($1.3M)	

Note: The above numbers were taken from Ministry of Education FO EFIS statements

In order to estimate expenditures for the classroom teacher allocation for 2012/13, we review how the 2012/13 budget additions and reductions for the classroom teacher allocation address the pressure that resulted in overspending in 2011/12.

For 2011/12, the school board is on track to expend $139.2M on classroom teachers – this is $1.2M over the $138M budget provided in the school board's 2011/12 Revised Estimates. More importantly, the current forecast is almost $2M over the school board's Estimates projection (since we are evaluating 2012/13 Estimates).

For 2012/13 Estimates, the school board has developed a plan to address the overall pressure in this line. The plan is based on projected enrolment declines as well as reallocation of Student Success FTE and Learning Support Services Teacher workloads.

The school board has also increased the classroom teacher allocation by $0.1M to reflect salary stipend expenses for teaching. In the table below, we show that after accounting for the budget reductions and additions in this allocation, it would appear that there remains a pressure of $1.1M for this line item.

	$M (Millions)
2011/12 Forecasted Spending	$139.2M
2012/13 Budget Reductions	($4.4M)
2012/13 Budget Additions	$0.1M
2012/13 Deloitte Suggested Budget	$134.9M
2012/13 WECDSB Budget	$133.8M
Suggested Pressure	$1.1M

Supply Teachers

In the table below, we show that WECDSB has overspent its supply teacher allocation by about $2.8M on average over the last three years. Given the impact of declining enrolment on annual budget adjustments, the historical pressure for supply teachers does not shed any light on the potential pressure for 2012/13. Rather the table illustrates that the school board has historically found it challenging to live within its self-identified allocations developed for supply teacher expenditures.

	2008/09	2009/10	2010/11
Revised Estimates	$3.5M	$3.1M	$2.5M
Financial Statements (EFIS Schedule 10)	$4.9M	$6.8M	$5.9M
In-year Pressure	($1.4M)	($3.7M)	($3.4M)
Average Pressure		($2.8M)	

Note: The above numbers were taken from Ministry of Education FO EFIS statements

The 2011/12 Revised Estimates projected the spending for supply teachers to be $3.9M, while the Q3 forecasts from June now anticipate this number to be closer to $5.4M – a pressure of $1.5M. Therefore, the pressure for supply teachers persists for this year.

For 2012/13, the school board should be commended for increasing its supply teacher allocation to $5.5M, which is more in line with historical expenses. This increase resulted from the additions identified during the budget development process to address historical pressures.

However, during the budget planning process, WECDSB identified a historical pressure of $2.7M for supply teachers but this number was decreased by $0.5M due to the anticipated implementation of an absence management program and the potential impact of the MOU cap on number of sick days per year.

WECDSB has not demonstrated that this absence management program will be implemented in time to bring about substantial decreases in teacher absences for 2012/13 - it should be noted that WECDSB had similarly expected the implementation of an absence management to reduce supply teacher expenses for 2011/12, which did not materialize. As well, staff could not substantiate how it quantified the expected decrease – the $0.5M decrease was not based on analysis or fact. Therefore, we include this pressure back in our estimate of projected costs for next year.

School Operations and Maintenance

WECDSB facilities staff expressed a clear view that there is a structural, unfunded pressure in the department of at least $1M. Staff indicate that aside from structural pressures to the line item, expenditures for school operations/maintenance are also affected by emergency repairs that can occur

unexpectedly. We understand that the school board has not built any contingencies into its budget to accommodate any potential emergency repairs.

In the table below, we show that actual expenses on school operations and maintenance have ranged from $22.8M to $23.8M. Projected expenditures for the 2012/13 budget fall between $1M to $2M below that range.

	2009/10 Actuals	2010/11 Actuals	2011/12 Q3 Forecast	2012/13 Budget	Historical Range of Spending	Potential Pressure
School Operations / Maintenance	$22.9M	$23.8M	$22.9M	$21.8M	$22.9M - $23.8M	$1.1M-$2M

Note: The above numbers were taken from Ministry of Education FO EFIS statements with the exception of 2011/12 Q3 Forecast which was taken from WECDSB Q3 report and the 2012/13 budget which was taken from the Estimated EFIS as submitted to the Ministry

In our investigation, Deloitte found no evidence to suggest that recent spending trends in facilities and operations would change, and as a result believe there is between a $1.1M and $2.0M pressure in this area. However, after accounting for the $1.2M budgeted reduction for school operations that we identified as at risk, we believe the net risk is of up to $0.8M pressure remaining for this line item.

In addition, we understand that the high end of school operations expenditures occurred in a year where one emergency roof repair put the board over by $1M – this is part of the unpredictability of expenditures that are natural to this line of work (facilities management). Our discussions with staff revealed their agreement that it would be prudent to build in a contingency of $1M for emergency expenses for school operations and maintenance based on past experience. Therefore, the combination of the historical pressure of up to $0.8M and potential for emergency repairs, we identify a net risk of a $1M potential pressure for this line item.

Conclusion

While an improved budget process was used to develop the 2012/13 budget, there is substantial risk that the targeted $3.3M surplus will not be achievable. We are particularly concerned about the budget's underlying assumption that successful collective agreement renegotiations can be achieved without any substantial concessions in order to achieve $2.2M of the budget reduction target.

Additionally, while WECDSB has commendably accounted for some historical pressures in its budget additions, we believe the school board has not gone far enough to address some key historical pressures for classroom teachers, supply teachers, and school operations/maintenance. Through our analysis of each individual area, Deloitte has identified $2.6M in additional pressures – beyond the $2.2M risk contingent on successful collective agreement negotiations.

As a result, we believe the 2012/13 budget has set some unrealistic targets. Our analysis of WECDSB's 2012/13 budget suggests there is a risk the budget could result in a smaller surplus of $0.7M up to a deficit of $1.5M. Importantly, neither scenario eliminates the school board's accumulated deficit of at least $2.8M which could yet be larger depending on the final results for 2011/12.

Review of Capital Deficit Reduction Plan

Introduction

In previous years WECDSB undertook capital projects that were not supported by Ministry funding. The most significant capital projects were for new pupil places (St. Anne's Secondary School and St. Joseph's Secondary School) and the school board administration building. As of August 31, 2012 WECDSB's remaining balance of unsupported capital spending will be $15.3M which will be amortized over the next 21 years.

The decision to build these facilities without funding has impacted and will continue to impact WECDSB financially for many years. WECDSB will continue to build into its budgets the principal and interest payments required to pay down the unsupported, not permanently financed debt (capital deficit) as well as budget for the amortization expense in its financial statements each year until the debt is repaid and the balances are fully amortized. WECDSB has incorporated these amounts into its budget and Deloitte was asked to determine if the school board's plan to address this capital deficit is achievable.

Analysis

The opening balance of the capital deficit for the 2012/13 year is approximately $14M and WECDSB has budgeted to repay $0.8M in principal and interest payments (as disclosed in Section 12 – Debt Charges Allocation in the 2012/13 Estimate and Revised Estimates Financial Statements). This is consistent with the repayment terms set out in their banking agreement.

As mentioned above, the capital deficit resulted from spending on the administration building and new pupil places that was not fully supported by Ministry funding. WECDSB has developed a separate budget to address the capital deficit relating to each item.

The plan to repay the portion relating to the administration building is based upon using some of the proceeds from a previous property disposal as follows:

Year	Proceeds Previously Received Relating to Administration and Unallocated
2012/13	$0.2M
2013/14	$0.2M
2014/15	$0.2M
Total	$0.6M

For 2015/16 and subsequent years, WECDSB plans to make reductions in other areas of its administration budget in order to fund the capital deficit, unless proceeds of disposition of buildings (capital asset sales) are received, in which case they would be applied to reduce the capital deficit. However at this time, WECDSB indicated it is not budgeting to receive any disposal proceeds which will be further discussed in the paragraphs below.

For the capital deficit relating to new pupil places, WECDSB has budgeted to allocate a portion of its future school renewal grant each year. For the 2012/13 budget, $0.9M of this grant has been dedicated

for this purpose and WECDSB plans to continue allocating a portion of this grant each year until the capital deficit is repaid unless proceeds of disposition relating to new pupil places (i.e. surplus schools) are received, in which case they will be applied to this capital deficit.

The Ministry had advised WECDSB to perform an accommodations review to determine if any schools could be closed, declared surplus and subsequently sold so that the proceeds could be applied to reduce the deficit. The Ministry indicated that 40% of WECDSB schools are underutilized. WECDSB provided Deloitte with the meeting minutes of its June 26, 2012 Board of Trustees' meeting which discussed the results of the accommodation review and the following decisions were made:

- Effective September 2012, St. Theresa will be officially closed and the property declared surplus to the school board
- Effective September 2012, the students from W.J. Langlois and St. Alexander will be temporarily accommodated at the St. Alexander site pending renovations to W.J. Langlois with students transferring to the renovated W.J Langlois building no earlier than October 9, 2012 and no later than January 7, 2013 at which time St. Alexander will be officially closed and the property declared surplus to the school board's needs
- Our Lady of Annunciation will remain open while the school board pursues a partnership with the French Catholic school board and/or any other neighbouring school board as well as seek Ministry of Education funding for a new rural school building to be constructed. Our Lady of Annunciation will be closed and the property declared a surplus to the school board's needs should the new school be realized.
- The school board shall examine the results of student population forecasts for St. John the Evangelist Catholic Elementary School, Holy Names (Essex) St. William and St. John the Baptist to consider a further deferral of the closure of St. John the Evangelist based on the school board's determination of the viability of each of the four schools.

While WECDSB did follow the Ministry's recommendation to perform the accommodation reviews, the school board indicated that it does not expect it will be able to sell the schools that have been declared surplus due to the current real estate market in Windsor and surrounding areas. Therefore, as mentioned above, WECDSB has not budgeted any proceeds from these surplus schools in its capital deficit reduction plan.

Conclusion

In conclusion, although WECDSB does have a plan in place to address its capital deficit, its reliance on allocating portions of the school renewal grant and its current inability to dispose of surplus properties means that it will take many years to eliminate the deficit. It is also evident that the current capital deficit reduction plan is taking away scare resources that could address operating pressures.

Estimation of Liability for Health and Dental Coverage Beyond Age 65

Introduction

The purpose of this section is to review available information to determine the liability WECDSB has for providing health and dental benefits to retirees and the extent to which the liability relates to retirees over the age of 65.

WECDSB provides retirement and other employee future benefits to some of its employee groups. Based on the school board's 2011 actuary report (which is based on 2009 data), we have summarized WECDSB's employee future benefit liabilities by type in the table below, showing the significant impact that post-retirement benefits have on WECDSB compared to the other types of employee future benefits:

	Retirement Benefits	Retirement Gratuity	Sick Leave Accumulation	Long-Term Disability	Total
Employee Future Benefit Liability	$67.7M	$20.6M	$14.7M	$1.0M	$104.0M
Unamortized Actuarial Losses	$27.4M	$1.6M	$1.0M	$0.2M	$30.2M
Accrued Employee Future Benefit Obligation	$95.1M	$22.2M	$15.7M	$1.2M	$134.2M

Information in table above obtained from the Valuation Report as of August 31, 2011 for Sick Leave Accumulated Benefits, Post-Retirement Benefits and Disability Benefits ("Actuary Report") for the WECDSB prepared by Morneau Shepell

Specifically, we highlight in the red box of the table that a $67.7M liability results from the fact that WECDSB continues to provide coverage of health, dental and life insurance after retirement for non-teaching employees until age 65 and for life primarily for employees in the CAW union. However, in addition to CAW members, there are also some non-union staff hired before 1999 or who were transferred from other union groups that are eligible for benefits for life. Still, the school board senior administration (supervisory officers) should be commended for voluntarily relinquishing their right to benefits over 65 years of age during fiscal 2011/12.

Analysis

The school board's actuary report defines health coverage to include a prescription drug plan, semi-private hospital plan, extended health benefits and vision while dental coverage includes basic and comprehensive services, major restorative services and orthodontics. Deloitte has been unable to isolate the liability related to health and dental coverage only as the current information also includes life insurance benefits as well; however, when compared with the value of the health and dental coverage, the life insurance premium is not substantial.

To further clarify the significance of this liability, the Ministry provided Deloitte with a report entitled "Health, Life and Dental," that summarizes the health, dental and life insurance benefit liability and accrued benefit obligation as of August 31, 2011 for all school boards in Ontario. Our analysis of this data revealed that the WECDSB's employee benefit liability and accrued benefit liability for post-retirement

benefits are the highest amongst all school boards in Ontario. The WECDSB's liability represents 15% of the total benefit liability of all the school board's in Ontario. The WECDSB cost of liability per pupil is $3,011; other school boards with similar levels of enrolment range from $13 to $627 per pupil.

Furthermore, the actuary report disclosed that the projected post-retirement benefit expense and premium payments for the next three years are as follows:

Retirement Health, Dental, Life Insurance	Projected Benefit Expense (Actuarial)	Benefit Premium Payments
2011/12	$10.2M	$1.7M
2012/13	$10.6M	$1.8M
2013/14	$11.0M	$2.0M

The "benefit expense" represents the amount recognized in WECDSB's financial statements as the cost of the benefit plan for the year, while "benefit premium payment" represents the actual costs paid during a year for WECDSB's portion of the premiums. The difference between the expense and the payments represents a liability to the WECDSB. Therefore, based on the above projections, the costs of providing this post-retirement benefit plan is expected to continue to escalate year-over-year unless significant changes are made to the plan.

Data Constraints

Deloitte was only able to obtain the composition of the liability of providing benefits after retirement by employee group, which allowed us to extract the portion of the liability that related to the segment that is eligible for benefits for life (CAW members). However, information was not available to further separate this liability by providing benefits from retirement to age 65 and from age 65 for life.

This information was not available because WECDSB is no longer using the same actuarial firm to prepare its information and the new actuarial firm is currently in the process of gathering the data required to complete the August 31, 2012 actuarial valuation.

It should also be noted that the current actuary report is based on 2009 data. However, once the new firm completes its 2012 actuarial valuation, that data will be more current (i.e., as of August 31, 2012) and other key assumptions and rates will be as of this date. This could have an impact on the size of the liability.

Deloitte's Estimate of the Liability

While actuarial information was not available to estimate the size of the liability related to of providing post-retirement benefits beyond the age of 65, Deloitte used available information to develop a very high-level estimate of the size of the liability using two methods:

1. By estimating the annual costs of all active member's potential post-retirement benefits and extending it over their post-65 retirement life

    - **Result:** This estimate suggests that the liability for providing post-retirement benefits after the age of 65 is $32M.

2. By approximating the average number of years of post-65 retirement versus retirement up to 65 and assuming that same proportion of the overall liability.

    - **Result:** This estimate suggests that the liability for providing post-retirement benefits after the age of 65 is $24M.

Importantly, both estimates provide results in a similar ballpark ranging from $24M to $32M.

Method 1) Estimating the annual costs of a retiree's post-65 benefits: According to the actuary report, there are 836 active and 310 retired non-teaching staff eligible for post-retirement benefits funded by the WECDSB. However, there are some groups that are only eligible for post-retirement benefits from the date they retire until age 65 and other groups that are eligible for benefits for life. The table below summarizes the information available for the two most significant employee groups eligible to receive benefits for life and some assumptions made by the actuary.

Employee Group	% Premiums Paid by WECDSB	Average Age	# of Active Members	# of Retired Members	Total	Total Benefit Liability as of August 31, 2011 ($M)
CAW - Office, Clerical and Technicians Bargaining Unit	100%	47.6	193	78	271	$24.2M
CAW – Custodial and Maintenance	100%	48.3	213	120	333	$28.7M
Total			**406**	**198**	**604**	**$52.9M**

In the table above we show that the CAW – Custodial and Maintenance and CAW Office Clerical and Technicians Bargaining group comprise $52.9M of the $67.7M post-retirement accrued liability. The following information was also available for these groups in the actuary report:

Deloitte obtained a copy of a data file prepared by the WECDSB entitled "Data File for Actuary Benefits (C)." This report contained a listing of retired CAW members along with annual benefit premiums paid for the 2010-2011 fiscal year. Deloitte took the total of premiums paid for all retired CAW members and divided it by the total number of employees on that list to arrive at an average premium rate of $4,000.

The table below has been prepared to help understand the potential impact if the WECDSB had to pay 100% of the premiums for health, dental and life assuming that an employee retires at the age of 65 and receives these benefits until they are 85 using the average premium that the school board paid for CAW employees for 2010/11.

Average Annual Premium in Actual $'s Paid 100% by the WECDSB (calculated using data obtained from a report called "Data File for Actuary Benefits C"	# of Years from Age 65 to 85	Total Cost of Premiums to be Paid by WECDSB if Active Employees Receive Benefits from Age 65-85
$4,000	20	$80,000

The table above shows how we estimated that the cost per employee would be $80K. If it were assumed that all 406 active CAW employees received this benefit at $80K, the total cost would be approximately $32M.

Method 2) Approximating the average number of years of post-65 retirement: The table below has been prepared to try to breakdown the $54.9M liability for CAW employees between the liability of a retiree receiving benefits until age 65 and receiving benefits after 65 years. This table assumes that the liability for active members and retired members would be based on membership data. Therefore, this table below assumes the liability of providing post-retirement benefits to active employees is $35.6M

	# of CAW Members	% of Active/Retired CAW Employee over Total Active and Retired CAW Employees	Benefit Liability Broken out Between Active and Retired CAW Members Using the Allocation Calculated in Column B
	Column A	Column B	Column C
# of Active Members	406	67%	$35.6M
# of Retired Members	198	33%	$17.3M
Total	**604**	**100%**	**$52.9M**

The table below tries further to break down the $35.6M liability calculated above and assumes that a retiree would retire at 55 and be eligible to get benefits for the next 30 years. Therefore, an employee would get 10 years of benefits until age 65 and another 20 years of benefits after 65. Assuming the liability is calculated based on period of when an employee would receive benefits, it is assumed the cost of providing benefits from retirement to age 65 is $11.9M and the cost of providing benefits from 65 to 85 would be $23.7M. Therefore if would be assumed that $23.7M of the liability would be removed if the WECDSB stopped providing benefits after age 65.

	# of Years	Assuming Benefits Received for 30 years, % of Benefits from 55-65/65-85 over 30 years	If Total Benefit Liability for Active Employees is $35.6M, Liability Broken out between benefits from 55-65 and 65-85 (Column B X $35.6M)
	Column A	Column B	Column C
Benefits Received if Retires at 55 and gets Benefits to 65	10	33%	$11.9M
Benefits Received from Age 65-85	20	67%	$23.7M
Total	**30**	**100%**	**$35.6M**

WECDSB Plans

As noted in the analysis above these post-retirement costs continue to escalate and continue to erode funds that the WECDSB could use towards other budget items. During the investigation the WECDSB disclosed to Deloitte that in 2001 the WECDSB did attempt to eliminate post-retirement benefits for custodial/maintenance staff as well as office/clerical staff (formerly SEIU Local 210). However, at that time, an arbitrator was brought in and the arbitrator determined that these benefits should not be eliminated even though there appears to be general consensus that these benefits contravene the Education Act. Today, these units are both represented by CAW Local 2458, and they remain separate bargaining units with separate collective agreements.

At the time of this review the school board’s solicitor had notified CAW Local 2458 (Custodians and Maintenance bargaining unit) but no other collective bargaining units had received similar notification.

However, it was also noted that during these discussions that the items listed in the bargaining proposals (post-retirement benefits and other items) will most likely result in a strike by the unions that would be expected to cause disruption to the WECDSB. It could also result in eligible employees opting to take early retirement in order to be grandfathered in to receive post-retirement benefits.

Conclusion

While actuarial information was not available to estimate the size of the liability related to of providing post-retirement benefits beyond the age of 65, Deloitte was able to develop a high-level estimate of the liability. Our analysis suggests the liability related to providing post-retirement benefits is about $24M to $32M.

If there are no changes to the post-retirement plans offered to non-teaching staff of the WECDB, this accrued liability will continue to escalate and the premiums paid to these retired employees will continue to result in a financial burden to the WECDSB.

As noted, the WECDSB is attempting to try to eliminate some of this financial burden in upcoming negotiations; however, it appears that the elimination of this budget could result in a disruption to WECDSB by way of employee strikes.

Status of Operational Capacity Enhancement Report Recommendations

Introduction

In May of 2011 the Director of Education for the Windsor-Essex Catholic District School Board requested, as an extension of the regular School Board Operational Reviews that the Ministry of Education conduct a special review of the school board's operational functions. In June of 2011, the Ministry of Education's School Business Support Branch assigned one of the firms conducting operational reviews, PriceWaterhouseCoopers LLP (PwC) to conduct an in-depth review.

This PwC report summarizes the key findings and recommendations arising from PwC's work between July to December of 2011. At that time PwC presented a final report to the school board that contained recommendations aimed at increasing operational capacity. The report contained 10 recommendations and supporting steps as well as a 3-year implementation roadmap intended to assist the Chair of the Board of Trustees and the Director of Education in enhancing the school board's management capacity in support of student achievement.

As part of this investigation, Deloitte was asked to review the status of these 10 recommendations. The purpose of this section is to report on the implementation status of each recommendation as well as identify any links to the school board's current financial position. Additionally, this section will also examine the status of recommendations relative to its influence over the viability of the approved 2012/13 budget. A summary of observations follows and is supported by a more detailed analysis of each of the PwC recommendations.

Analysis

Summary of Observations

Overall, Deloitte found sufficient evidence to support a conclusion that the majority of the budget development recommendations were fully adopted by the school board. This includes the implementation of a five-step budget development process as well as an increase in transparency through formal channels of communication with internal and external stakeholders. The team also noted that the majority of budget development recommendations were fully implemented ahead of the milestones outlined in their three-year implementation roadmap.

However, the formal implementation of several key budget-related recommendations was still a work in progress at the time of the investigation. Most notable was the implementation of a formal risk management plan as part of the budget development process as well as taking a strategic approach to budget development. The lack of formal budget risk mitigation and risk management was seen by Deloitte as a critical gap in supporting the board's ambitious cost reduction and budget balancing goals for the 2012/13 school year. (More details can be seen in the following section under recommendation #4).

Although the school board relied on departments to develop strategically-based budgets for the Staff Budget Workgroup Review, the school board does not have a multi-year strategic plan that would provide

the basis for budgeting across all departments. Despite the absence of a strategic plan, the school board used the budget development process as a catalyst for revamping several service delivery models, including Special Education and Information Technology.

Administration and the Board Chair reported that the revised process for budget development was essential for creating a 2012/13 budget that was understood and supported by all functions, however Deloitte found department-level accountability for monitoring and reporting on budget to be a significant gap in prior years.

The investigation did not find sufficient evidence that would indicate the full implementation of those processes related to staffing allocation, specifically in-year complement management, auditing, and reporting. It is the view of Deloitte that the lack of progress in this area will continue to pose a risk to levels of variance in budget line items directly related to staffing levels.

The table below presents a summary of findings as well as some additional considerations for strengthening the implementation of each recommendation.

	PwC Recommendation	Implementation Status	Comments & Considerations
1	Implement a five stage strategic budget development process to address timing and staging issues	Fully Implemented	• Fully implemented ahead of the schedule proposed by PwC
2	Take a more strategic approach to budget development through integrating needs assessments, service delivery reviews, and options development	Partially Implemented	• No mandatory multi-year strategic plan (B 177) • No multi-year maintenance plan • No IT Strategic Plan • Prioritization based on a framework developed by the Staff Budget Workgroup • Included a line-by-line review of all revenues and expenditures • Community provided with ample opportunity to provide feedback
3	Introduce formal channels of communication and consultation to improve transparency of the budget development process	Fully Implemented	• Six key steps adopted • One minor step in progress – development of an online budget portal
4	Implement formal budget risk management as part of the budget planning process	Not Implemented[1]	• Risks not identified or formally quantified • No contingences developed for the 2012/13 budget items • No risk management plan developed for the 2012/13 budget • No system constraints that would block transactions (PO's) that exceed budget • No formal tracing of in-year transfers of budget amounts

[1] In this particular recommendation (#4) the authors of the report have included some considerations that go beyond what was originally proposed in the PwC report. The removal of these additional considerations however would not change the overall implementation status for this recommendation.

	PwC Recommendation	Implementation Status	Comments & Considerations
5	Enhance monitoring and reporting mechanisms in order to improve accountability in the budget process	Partially Implemented[2]	• Explicit steps of using Interim Financial Reporting Committee (IFRC) reporting template and quarterly reports to the school board was implemented • Limited budget owner accountability or understanding of budget position • Departmental accountability often requires proactive interventions by Finance
6	Establish clear ownership of enrolment planning activities	Partially Implemented	• Enrolment is centrally prepared but draws upon other departments and Principals • Timelines and process for enrolment have not been formally documented or communicated to stakeholders • Deadlines for locking down enrolment numbers are driven by the budget development schedule
7	Establish clear accountabilities in the staff allocation process	Partially Implemented	• HR now owns staffing and uses allocation formula driven process • Sufficient communication to Principals • Documentation of staffing process roles and responsibilities not formalized in a standard operating procedure • No Working Committee established • No mid-year audits or year-end evaluation of process
8	Establish additional HR policies to guide hiring and recruiting decisions	Partially Implemented	• The department has developed a comprehensive policy with definition of relative and conflict of interest guidelines • No supporting template or sign-off sheet for those making declarations during the hiring process • No evidence of consistent in-year staffing allocation change process or auditing by HR • Reporting on in-year staffing estimated by Finance using Payroll data for IFRC reporting template • Job descriptions for non-union positions have only been updated on a transactional basis as positions become available
9	Consider how adequate effort can be dedicated to sub-processes with significant maturity gaps	Partially Implemented	• Finance has made staffing changes and is driving more services to departments through the Staff Budget Workgroup • IT is in the process of redesigning the department to align with needs of the school board • Facilities in the process of redesigning their custodial allocation model • HR has added a staff member to track staff attendance data • No redesign or allocation of new staff for staff allocation process or enrolment as per PwC recommendation

[2] Although the specific recommendation steps have been implemented there are some additional considerations for the school board that should be in place to improve accountability where it is required.

	PwC Recommendation	Implementation Status	Comments & Considerations
10	Classify and formalize roles and responsibilities for the budget and enrolment planning process	Partially Implemented	• Finance implemented clear roles and responsibilities for budget development and financial reporting • Enrolment planning process roles and responsibilities not formally documented • Considerable lack of accountability from other department budget owners

Detailed Review of the status of PwC Recommendations

The following section provides a status on the implementation for each of the 10 PwC recommendations, relative to the supporting steps.

1. Implement a five-stage budget development process

Deloitte found sufficient evidence that this recommendation was implemented and that the following supporting steps had been taken:

1. Implement a formal budget planning stage where budget preparers/owners prioritize budget line items and identify potential budget reductions using budget categories (i.e., discretionary, non-discretionary, etc.);

2. Move review periods for the draft budget and final budget to earlier times within the budget development cycle;

3. Establish clear decision points at the end of each budget phase for the Executive Council to sign off on phase completion prior to the beginning of the new phase; and

4. The Finance department should provide all departments with a detailed breakdown of how the funding forecast is allocated between departments. This should be performed when budget allocation envelopes are communicated to departments.

It should also be noted that this recommendation was implemented by the board ahead of the schedule identified in the PwC implementation roadmap.

2. Take a more strategic approach to budget development

Although many of the supporting steps (below) have been implemented by the school board, Deloitte could not find evidence to confirm the implementation of all of the supporting steps.

Of particular note was the absence of a mandatory multi-year strategic plan[3] that would provide the basis for annual operational planning and budgeting. Furthermore, the board did not have a formal IT Strategy or multi-year maintenance plan that would help the Staff Budget Working Group align and prioritize budget decisions with long-term objectives.

Despite the absence of any formal long term plans that were approved by the Board of Trustees, the Staff Budget Workgroup conducted a detailed line-by-line review of expenditures and categorized each project and budget opportunity against a standard framework designed by the Committee with input from Trustees. Some departments also used their vision of an alternative service delivery model as a guideline for designing their budgets. Additionally, the school board provided the community with ample opportunity to provide feedback on the proposed budget for Staff Budget Working Group consideration.

[3] "Bill 177", Education Act, 169.1 (1) sub-sections "a" through "c"

The steps supporting the PwC recommendation for strategic budgeting are as follows:

1. Conduct an initial review of the school board's multi-year strategic plan to ensure alignment with strategic directions. The administration should then work in collaboration with all school board functions including academic and support departments to undertake a high-level review of key budget categories.

2. If management identifies a need for a deeper analysis, the school board should consider conducting a detailed line-by-line budget review to determine the nature of each expenditure. Should internal staff or time constraints prevent the board from conducting this one-time exercise using its own resources, management may consider engaging external assistance.

3. Provide the community with a short-list of budget reduction alternatives to consider after the draft budget is reviewed by the Trustees.

4. Formally document the prioritization criteria for ranking projects for funding from the capital budget.

5. IT department should consider developing an IT strategy to guide annual planning.

6. Start the capital planning process early in the academic year by performing needs-based planning for Facilities and IT

7. Include IT capital requirements (e.g. new servers) in the capital plan and budget.

3. Introduce formal channels of communication and consultation

Deloitte found sufficient evidence that this recommendation was implemented and that the seven supporting steps (listed below) had been taken, with the exception of the development of an on-line portal to track progress of budget development. The steps recommended by PwC are as follows:

1. Define and formalize the roles and responsibilities of various departments and individuals with respect to budget development. PwC has developed an outline of roles and responsibilities in the budget development process.

2. Establish a staff budget workgroup comprised of the budget owners/managers from each department (e.g. Finance Manager, HR Manager, etc.). This group should collaborate to maintain communication and coordination between departments throughout the budget development process and meet regularly to monitor progress.

3. Establish a Budget Committee including Trustees (to establish majority vote when applicable). This committee should be responsible for receiving information during the budget development process and providing feedback and recommendations to the Board.

4. Reach out to the community earlier in the budget development process. Communicate anticipated budget challenges to the community when the preliminary forecast is prepared.

5. Enhance the formal budget timeline document with detailed sequential steps. In particular, provide detailed steps within the Administrative Phase.

6. Establish community touch points for the stakeholders to be involved earlier in the budget development process.

7. Create an online budget portal to communicate and track progress against the budget timeline.

4. Implement formal budget risk management

The school board's Staff Budget Workgroup considered risks during the initial development of some of the budget targets for 2012 -2013 and in some cases incorporated mitigation as a fiscal cushion for specific line items. However, the school board did not develop a formal risk plan that identified the type and nature of specific budget risks as well as the influences or impacts on risks. Furthermore, the Committee did not develop or document contingencies or thresholds of spend that could trigger actions for mitigating overspending nor did the Workgroup identify any specific contingencies that could be invoked if necessary.

Deloitte also noted that the school board has not configured their financial systems to either stop purchase orders and/or send a warning to budget owners whenever a transaction has the potential to exceed budgeted funds. This lack of real time spend controls and the reliance on either the budget owner or an assigned Finance clerk's diligence was seen as a significant risk to effective budget management. Deloitte's concern regarding the significance of this risk was further confirmed through interviews with some budget owners who were unaware of their budget, their current position, and the historical and current cost and forecast pressures.

Related to effective budget risk management is the control of in-year fund allocation and transfers. In this regard the school board acknowledged that there is currently no formal or documented request or authorization process for transferring funds from one budget account to another, either within a department or across departments.

Although this process is currently controlled by select senior staff in Finance, there is a lack of a formal process that would require a documented rationale and approval for budget transfers as well as the means for maintaining an audit trail for these transactions. Although this is not an explicit recommendation of the PwC report, Deloitte saw this lack of transparent tracking and reporting as a key risk to effective budget development as well as budget risk management.

More details on the levels and types of budget risks can be found in the "Assessment of 2012/13 Budget" section of this report. The single step that was not adopted in this budget development cycle is as follows:

- Formally identify budget risks during the budget planning process. These risks should be quantified where possible and at the very least should include a qualitative description and possible mitigation strategies.

5. Enhance budget monitoring and reporting

While the school board, through the Finance department, has implemented the explicit recommendation through the supporting steps (below), there is still a significant gap in budget monitoring and reporting where budget owner accountability is concerned.

In this regard, Deloitte noted during interviews that budget owners of key functions were active participants of the Staff Budget Working Group. However subsequent ongoing department-level monitoring, management and reporting of budgetary matters to Executive Council or Finance were limited in most departments.

In some cases budget owners claimed that they were assigned their budget arbitrarily by Finance and that they were unaware of the connection between the assigned budget and their ongoing operations. To this end budget owners were not aware of their budgets or current position. In most cases budget owners would rely on proactive interventions from Finance whenever spending exceeded expected levels.

Based on the lack of evidence to support department-level reporting and the information provided in interviews, it is Deloitte's opinion that the school board continues to maintain a long-standing culture that assumes that once the budget has been developed, the role of ongoing budget management and reporting remains the exclusive responsibility of Finance.

Despite the lack of evidence to support accountability among all budget owners, the school board, through Finance has implemented the explicit PwC recommendation through the following steps:

1. The school board should implement a standard format of interim financial reports for budget owners, Executive Council and Trustees to better support decision making. The school board should make use of the IFRC templates for interim financial reporting to assist in improving reporting practices.

2. Reports to the Board should be produced at least quarterly and follow the IFRC recommendations

6. Establish clear ownership of enrolment planning activities

Deloitte found that student enrolment forecasting is coordinated through the HR Department and currently takes into account various factors such as: current enrolment, student registration / course election, historical enrolment by school and by grade, grade 8 enrolment retention, post-Christmas exams retention rate as well as retention rates after grade 12 graduations. The process also includes estimates and input directly from school Principals. All of the information and inputs are coordinated and consolidated through the HR Department and then made available to other internal stakeholders to support processes such as staffing and budgeting. In this regard, the enrolment forecast is released in February which is much earlier in the year than in previous years.

Nevertheless the process and timelines for enrolment forecasting have not been formally documented or formally communicated to all stakeholders. Currently the only formal documentation and deadline for enrolment staffing is through the budget development procedure and schedule that is released by Finance and provides a final date by which budget owners and the Budget Development Working Group may expect enrolment figures. The school board has not yet conducted a formal evaluation of the enrolment forecasting process that was implemented last year.

The steps recommended by PwC are as follows:

1. HR should be assigned central control and overall accountability to coordinate the enrolment projections in consultation with key stakeholders.

2. HR should establish a comprehensive approach to enrolment forecasts that estimates the expected September student enrolment using all relevant factors and assumptions. The forecasts should be periodically updated and shared with key stakeholders at predetermined cut-off points.

3. HR should formalize, document, and communicate the timelines and key activities for conducting enrolment projections in coordination with key stakeholders and that aligns to the timelines for budget development and staff allocation.

4. Once a comprehensive enrolment forecast process is documented and put in place, HR should implement a formal evaluation at the end of the process each year to review and identify opportunities to improve the process.

7. Establish clear accountabilities in the staff allocation process

Currently the HR Department is ultimately responsible for the coordination and allocation of staff based on enrolment, school needs, departmental input and other parameters such as Ministry formulas and employee collective agreements. The school board has also delegated the assignment of entering the data related to school-level staffing to school Principals and Vice-principals. In this regard the HR Department has designed and delivers a SPS system training course to all administrators in an annual PD session.

The school board, however, has not implemented a Staff Allocation Working Committee outside of the mandatory staffing committees that are outlined in the Collective Agreements. Although the department communicates key staffing dates and steps to elementary and secondary Principals (including seniority, preparation and travel time), the department has not created a standard operating procedure that identifies all roles and responsibilities.

It should be noted that the PwC recommendations related to staffing allocation follow similar recommendations made in a Ministry of Education Report from 2010.

The key steps required to support the implementation of the PwC recommendation are as follows:

1. HR should take on the responsibility for establishing a Staff Allocation Working Committee. The Working Committee would act as a central point of coordination and accountability for the staff allocation process.

2. The Staff Allocation Working Committee should coordinate the development of staff allocation procedures for each staff group that document the inputs, requirements and service delivery parameters for allocating staff. The staff allocation procedures should be reviewed and updated by the Working Committee at the beginning of the process each year.

3. The Staff Allocation Working Committee should formalize, document and communicate the timelines and key activities in the staff allocation process that aligns to the timelines for budget development and staff allocation.

4. Once a coordinated staff allocation process is documented and put in place, the Working Committee should implement a formal evaluation at the end of the process each year to review and identify opportunities to improve the process.

8. Establish additional HR policies to guide hiring and recruiting

The school board has implemented a new recruitment and hiring policy that requires all hiring panel members to declare conflicts of interest based on whether a candidate is a relative. The policy also provides a clear definition of what constitutes a relative. However, the school board has not yet developed a supporting procedure for recruitment or hiring (aside from what is outlined in collective agreements) or a form that would allow panellists to declare whether or not they have a conflict of interest.

The school board has not documented all non-union job descriptions, but is instead revising job descriptions as vacant positions are posted.

Deloitte found significant gaps in the tracking, management and reporting of in-year staffing complement. Although HR has assumed responsibility for staffing complement, there was no evidence of formal staffing controls or documented audits being conducted through the year. The only evidence of reporting on staffing level variances was found within the quarterly Interim Financial Reports assembled by Finance whereby, Payroll data is used to derive staffing levels.

Deloitte did not see sufficient evidence of in-year audits of staffing complement or audits between HRIS systems and Payroll. Interviews regarding variances in staffing levels and staffing costs confirmed that there were insufficient in-year processes to support complement control. This gap will continue to be a key contributor to challenges in managing budget risks.

The following were identified by PwC as steps to be undertaken by the school board to support the implementation of the recommendation:

1. Management should include information about actual enrolment and staffing numbers and breakdown relative to the estimates in the approved budget as part of the interim financial reports to the Board of Trustees.

2. A single source for generating accurate reports on staff numbers should be identified and information in different systems should be synchronized to identify and remove any discrepancies.

3. HR should document and maintain up to date job descriptions for all non-union positions that can be used for hiring and evaluation purposes.

4. HR should formalize and document the process and tools for recruitment and hiring activities in hiring procedures.

5. Although HR follows sound processes and the review did not identify any indications of conflicts, the school board should consider adopting a policy on conflict of interest, nepotism and cronyism to help avoid any potential hiring biases.

9. Consider how adequate effort can be dedicated to sub process with significant maturity gaps

Deloitte found that most of the departments had undergone an internal review of staffing levels and service delivery models during the budget development process. Most notable was Special Education that was reallocating effort to support more effective service to students. The IT Department also has plans in motion to redesign the organizational structure and service delivery. The Facilities Department also has plans to revise the custodial staffing allocation formula in order to better align it with current workloads. The HR Department added a staff member to focus on tracking employee data but has not formally allocated staff to focus on enrolment or staffing.

Finance reports that it has increased staff focus on budget development and reporting process, which is supported by the work being conducted through the Staff Budget Workgroup and the related materials collected by Deloitte. These materials included budget recovery plans, Interim Financial Reports, etc.

The following were identified by PwC as steps to be undertaken by the school board to support the implementation of the recommendation:

1. The school board should regularly review the effort allocations within each department and function and verify that prioritization of sub-process importance and actual allocation of effort/resources to each sub-process are adequate.

2. Management should consider allocating more effort and clarify roles and responsibilities for performing enrolment forecasting, particularly for long-term enrolment projections.

3. Management should allocate more effort to budget development activities, particularly for the development, review and approval of departmental budgets and external consultations.

4. Management should consider increasing the effort allocated to and frequency of interim financial reports, particularly reports for Senior Administration and Trustees. At a minimum, the school board should adopt the recommendations and templates of the IFRC and produce quarterly interim reports.

5. Management should increase the effort allocated to the staff allocation process. In particular, more effort should be focused on staff allocation process planning and formalizing, reviewing and communicating staff allocation parameters.

6. Perform a review of the service delivery for Facilities and IT to determine the appropriate skills and resources required to meet the school board’s needs. Good practices at other school boards include conducting service delivery reviews every 3-5 years.

10. Clarify and formalize roles and responsibilities for budget and enrolment planning exercise.

Deloitte found clear evidence that confirms that the roles and responsibilities related to budgeting have been clearly defined and communicated to all stakeholders. The school board also reports a high level of participation from all departments in the budget development process. However, Deloitte detected a considerable lack of accountability across most departments for monitoring and reporting once budgets have been developed. In this regard, most departments felt that it was the role of Finance to monitor and report on all budgets.

The processes, roles, and responsibilities related to enrolment planning have not been documented and communicated to all stakeholders.

The following single step was identified by PwC as a support for the implementation of the recommendation:

1. Define and formalize the roles and responsibilities of various departments and individuals with respect to budget development and enrolment planning.

Conclusions

Deloitte's review of the current budgeting process at the school board and the status of implementation of recommendations from the 2011 PwC Report concludes that WECDSB has made substantial progress in its budgeting process over the past year. Of the 10 recommendations set forth by PwC, in comparison to the implementation timeline laid out by PwC, the school board is ahead of schedule in several important areas of budget process and should be commended for their diligence in undergoing many necessary changes.

At the time of the investigation, several of the key budget-related recommendations were not fully implemented. Most notable was the absence of a formal risk-management plan as part of the budget-development process. Additionally, while budget owners reported participation in the budget-development process, there was not substantial evidence to support ongoing accountability and department-level reporting for budget control. It is the opinion of Deloitte that budget-ownership has not devolved to the individual department level and that budget management and reporting remain the responsibility of the Finance department.

Due to the absence of formal risk-management as part of the budget process, and the belief that the accountability for budget management and reporting remains in the Finance department, Deloitte is concerned about the ability of the school board to achieve its aggressive budget targets for 2012/13 and in subsequent years. Considering that the implementation of many of the PwC recommendations has already been achieved, the possibility exists that these shortcomings in the current budget-process may be course corrected and further improvements to the budget process will be realized.

Conclusion

It is evident through this investigation that WECDSB's inability to meet its financial management obligations under the Education Act has been due to a number of factors including:

- The financial impact of previous decisions such as very generous collective agreement terms and unfunded capital construction

- An inability to develop accurate budgets and an inability to develop accurate reports throughout the year

- Inadequate financial management practices within the organization and insufficient management capacity

The investigation revealed that both staff and the Board of Trustees are aware of the current financial challenges and that notwithstanding a sense that these problems have been inherited from past regimes, there is a sense of ownership and a call to action.

That said, it is the view of Deloitte that there are significant risks surrounding WECDSB's ability to rectify its financial position in the short term. Given that WECSDB has been in contravention of the Education Act, and in our view will likely continue to be in contravention, our conclusion is that the Minister of Education should consider placing WECDSB under Supervision.

Whilst this is a decision that should not be taken lightly, in our view, a focused deployment of additional resources from the Ministry will provide the necessary structures, capacity and decision-making environment to expedite the return of fiscal sustainability at WECDSB.